YALE SOM
Finance Club

Technical Session #3: Enterprise / Equity Value

September 22, 2019

Agenda

I. Warm-up: macro and market news
II. Where should I be in the 400 questions?
III. Enterprise / Equity Value basics
IV. Practice questions
V. Questions to focus on ahead of mock mock madness / early coffee chats
VI. Q&A

Where should I be in the 400 questions?

Table of Contents – Technical Questions

Enterprise Value

EV = MV Equity + Debt + Non-Controlling Interest - Cash

- Non-Controlling Interest

- MV vs. BV of Debt and Equity
  - What does BV of debt look like?

- Calculating MV of equity: FDSO

- Enterprise value vs. Equity Value multiples
  - EV/EBITDA, EV/EBIT, EV/Revenue, EV/Subscribers, EV/Cash flow?

https://s2.q4cdn.com/181345880/files/doc_financials/quarterly_results/2019/q2/Delta-Air-Lines-2Q19-10-Q.pdf

Practice questions

Why do you add back Non-controlling Interest to Enterprise Value?

Practice questions (cont'd)

Why do you subtract Cash from Enterprise Value?

Practice questions (cont'd)

What's the difference between Market Value vs. Book Value of Equity?

Can a company have negative Book Value? How about negative Market Value?

Practice questions (cont'd)

Let's say a company has 100 shares outstanding, at a share price of $10 each. It also has 10 options outstanding at an exercise price of $5 each – what is its fully diluted equity value?

Practice questions (cont'd)

Could a company have a negative Enterprise Value? What would that mean?

Practice questions (cont'd)

What happens to Enterprise Value when a company pays dividend?

Technical questions to focus on ahead of mock mock madness / early coffee chats

1) Talk me through the 3 financial statements? How do they link?
2) Walk me through the statements when Depreciation increases by $10?
3) What is Enterprise Value?
4) Walk me through a DCF?
5) What are the 3 valuation methodologies?
6) Why acquire a firm?
7) …

Q&A

Appendix: Treasury Stock Method Calculation

x Treasury Stock Method

Shares Outstanding	100
Current Price	$10
Options outstnadin	10
Strike Price	$5

Steps		
In-the-money?	Yes	If Strike Price < Current Price => Yes
Add' Shares Create	10	If options are in the money, then # of shares created = # of options outstanding
New # of Shares	110	New # of Shares = current shares outstandign + additional shares created from excercising options
Proceeds	50	Proceeds ($ company receives) = Strike price x Options outstanding
Shares Buyback	5	# of shares buyback = Proceeds / Current Price
Final Share #	**105**	**Final Share # = New # of Shares - Shares Buyback**

Appendix: Non-controlling interest

x Non-controlling Interest: Acquisition & Equity Method

% Acquired	80%
Cash Paid	8,000.0

	Pre-acquisition		Post-acquisition	
	Acquirer	Target	Acquisition	Equity
Income Statement				
Revenue	$60,000	$20,000	$80,000	$60,000
Expense	40,000	10,000	50,000	40,000
Op Income	$20,000	$10,000	$30,000	$20,000
Equity income target				8,000
Minority interest			(2,000)	
Net income	$20,000	$10,000	$28,000	$28,000

Acquisition method: >51%

Equity method: 20% - 50%